

General Information Letter: Subtraction modification for interest on U.S. government and certain Illinois obligations.

December 7, 1998

Dear:

This is to acknowledge receipt of your survey dated November 27, 1998 concerning the tax treatment of municipal bond income. Department rules require that we issue only two types of rulings, namely, private letter rulings and general information letters.

Although you have not specifically requested either type of ruling, the nature of your questions and the information you have provided require that we respond with a general information letter. General information letters are designed to provide background information on specific topics. However, general information letters are not binding on the Department.

Your questions are reproduced below. Our responses follow immediately after your questions and are designated by **bold face type**.

- 1) How does your state account for federal and state tax deductibility on federal and state income tax returns?

Department Response: An individual's Illinois base income equals his or her federal adjusted gross income modified by certain statutory addition and subtraction provisions (See 35 ILCS 5/203). The Illinois Income Tax Act (IITA) does not contain a subtraction modification regarding federal or state income taxes. Further, IITA section 203(a)(1)(B) provides that there be added to an individual's federal adjusted gross income the amount of Illinois income tax deducted from gross income in the computation of federal adjusted gross income. Thus, neither federal nor state income taxes paid are deductible from the Illinois income tax base.

- 2) Does your state tax municipal bond income on out-of-state municipal bonds?

Department Response: Yes. With statutorily mandated exceptions for certain Illinois bonds, all municipal bond income is subject to the Illinois income tax. We have enclosed a copy of 86 Ill. Adm. Code 100.2470 which lists those obligations that are tax-exempt. This list of exempt obligations is exclusive.

- 3) Does your state tax municipal bond income on in-state municipal bonds?

Department Response: See response to #2 above.

- 4) Are intangible taxes levied in your state on in-state municipal bonds?

Department Response: Illinois has no personal property tax, either on tangible personal property or intangibles.

5) Please complete or attach the current rate(s) of taxation and include the graduated income levels if applicable, for the 1999 tax year.

Department Response: Please see IITA Section 201, copy enclosed.

6) Were there any changes to your state's tax code in 1998 or are changes pending for 1999 that would affect holders of municipal bonds?

Department Response: There were no changes.

Please contact the Department if you have additional questions or require additional information.

Sincerely,

Brian L. Stocker
Staff Attorney (Income Tax)